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TO RUEHC/SECSTATE WASHDC IMMEDIATE 8062
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RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
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UNCLAS MANILA 002945

SIPDIS

STATE FOR EEB/IFD/OIA, EB/ESC AND EAP/PMBS
STATE PASS USAID FOR AA/ANE, AA/G
STATE PASS EXIM, OPIC AND USTR
USAID FOR AA/ANE AND AA/EGAT
DOE FOR TOM CUTLER
TREASURY FOR LMOGHTADER
TREASURY ALSO FOR OASIA
USDOC FOR 4430 ITA/MAC/ASIA & PAC/KOREA & SE ASIA/ASEAN

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SUBJECT: Energy Privatization Catapults Forward

REF: A) MANILA 00170 B) 06 MANILA 01411 C) 04 MANILA 06068

Summary

¶1. Chances have improved that the Philippine Government will soon reach its legally mandated goal of privatizing 70% of its electric power generation capacity. If the sales take place as scheduled, private ownership will reach 50% by the end of 2007 and the open access provisions of Philippine legislation can be implemented. Competition can be expected to increase and prices to fall. The need to lower government debt and a shortfall in revenue collection are helping strengthen the political will necessary for the sales. End summary.

Pushing Privatization

¶2. The Arroyo administration, bidders, and interested observers were crestfallen in February after the fourth failed attempt to sell the state transmission company, TransCo. Arroyo then replaced the president of the Power Sector Assets and Liabilities Management Corporation (PSALM - the entity in charge of the sell-off) with Jose Ibazeta, a no-nonsense, U.S. educated MBA with extensive business experience, and moved the results-oriented ex-general Angelo Reyes from the Department of Environment and Natural Resources to push privatization as the Energy Secretary.

¶3. In July, Arroyo urged Congress to amend the Electric Power Industry Reform Act of 2001 to lower the 70% power asset privatization threshold for the implementation of "open access" to 30%. Open access allows consumers using at least 1 MW of energy to negotiate their own contracts with power generation companies. For several years the privatization level has hovered around 11%, but in July U.S. giant AES purchased a 600MW coal-fired plant, boosting the privately-owned power assets to 25%.

¶4. The President's son, newly elected House Energy Committee Chair Mikey Arroyo, filed an amendment to the law on August 22, lowering the open access threshold from 70% to 30%, a target which could easily be met this year. Auctions are scheduled to sell a 600MW coal-fired plant and two hydroelectric plants with 250MW of capacity before year-end. If these additional assets are sold on time, this will boost the amount of generation assets privatized to 50%. Ibazeta told Econoff he expects the 70% legal threshold will be

reached before the Arroyo bill can be passed.

Transmission Company on the Block for Round Five

15. The apparent government commitment to privatization and the credibility of Power Sector Assets and Liabilities Management Corporation President Jose Ibazeta seem to be attracting more corporate interest in the fifth round of bidding on the 25-year transmission company (TransCo) concession. In part as a result of Ibazeta's Singapore/London/Hong Kong road show in June 2007, nine consortia have submitted letters of intent, non-refundable fees, and executed confidentiality statements for bidding packets. The prequalification deadline is September 21 and the bid submission date is December 12.

Comment

16. The Arroyo government is showing increased seriousness about the privatization of the power sector. While there will likely be further bumps on this road, we expect them to meet the 70% target in 2008 and implement open access. Together with the state of the art wholesale electricity market already implemented in the Philippines, this could result in a much more vibrant energy sector with increased competition and lower prices - crucial to improving Philippine competitiveness.

17. Post will continue to report on the privatization process of generating and transmission assets on a continuing basis on the Intellipedia. The Intellipedia pages can be found at:
www.intelink.sgov.gov/wiki/Electric_Energy_Sector_Privatization_in_the_Philippines and

www.intelink.sgov.gov/wiki/TransCo_Privatization. Numerous linking pages provide background on the energy sector. Clicking the "Watch" link at the top of a page will sign users up for notification when the page is updated.